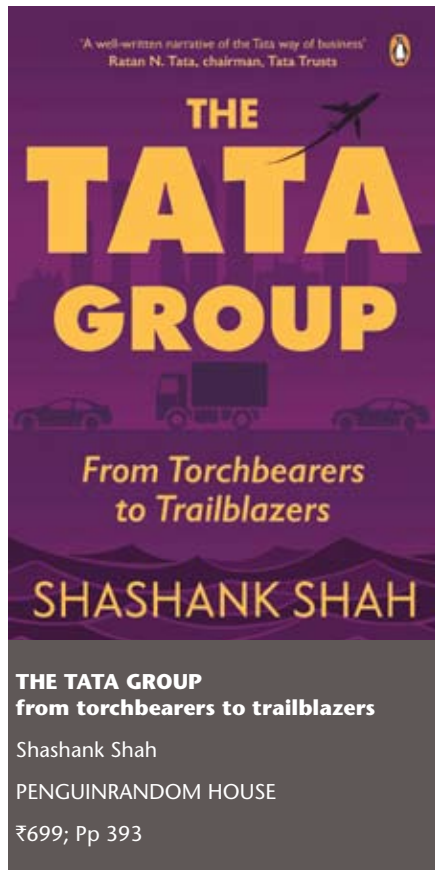


In-depth look

An excerpt from the book



After over a decade of research, meetings and interviews, Dr Shashank Shah, visiting scholar, Harvard Business School; fellow, Harvard University; and consulting editor, *Business India* Publications, recently launched his book *The Tata group: from torchbearers to trailblazers*.

Following the acquisition, newspapers ran headlines such as 'The Empire Strikes Back', 'Jaguar Is Now an Indian Beast' and 'Tatas Rule Britannia!' Some had more tongue-in-cheek comments – 'So what if the Queen of England still has the Kohinoor, the diamond and most famous jewel taken from India during colonial times? The Tatas now have Jaguar and Land Rover (JLR), the icons of British luxury. The British citizenry felt discomfited that India, a former colony, had acquired two of Britain's most iconic brands. In a conversation with MBA students at

Stanford University, Ratan Tata remembered the fiery and vocal reactions from Brits expressing their displeasure. "When Ford had not been able to make a profit with JLR, what was Tata, with no experience in the premium car segment going to do?" said some. Many others felt that the Tatas would shut down the plants in Britain, move them to India, and convert the Birmingham/Coventry plants into a real estate project. Another spicy rumour was that the Tatas were going to have Tandoori chicken restaurants all over the Midlands! But the Tata approach was very different from what they had expected. The Brits would soon realise the Tata way.

...And the global financial gloom descended.

On 15 September 2008, three months after the Tatas' acquisition of JLR, Lehman Brothers, a global financial services firm, and the fourth-largest investment bank in the USA, filed for bankruptcy. Many others soon followed. It was the beginning of a global financial crisis that affected almost every continent. Decline in consumer wealth was estimated in trillions of dollars.

The interconnectedness of nations in a globalised world, and its negative fallout were visible in full measure.

This indirectly contributed to the European sovereign debt crisis that began in the last quarter of 2009 and affected most nations of the European Union. It became apparent that Tata Motors couldn't have picked a worse time to make an acquisition of this magnitude. With the collapse of

the mortgage market in the USA and the subsequent financial crisis, anyone who had cash was no longer in the mood to lend it. With severe liquidity crisis, the demand for luxury cars in Europe and North America – JLR's two biggest markets – hit its nadir.

Already burdened with a debt of ₹21,900 crore, Tata Motors was forced to put more money into JLR after it failed to secure financial aid from Britain in the crisis scenario. It spent an additional ₹4500 crore to keep the struggling brands afloat. This was an awkward position for a company that had been virtually debt-free. 'We were bleeding. Banks were not giving any money. And we needed money,' recalled a senior Tata Group executive. For the year ending 31 March 2009, Tata Motors posted an annual loss of ₹2505 crore, compared to the profit of ₹2168 crore in the previous year. The JLR unit made a pre-tax loss of ₹1800 crore.

Tata Motors adopted a threefold strategy for dealing with the crisis and turning around JLR: cash management, cost control, and new product development. It was reminiscent of the efforts Tata Motors had made between 2000 and 2006 to turn around the parent company with great success. It was now replicating the strategy at a global level. It hired KPMG and Munich-based Roland Berger

Strategy Consultants to advise on cost-cutting and cash-flow management at JLR. Their mandate was to make JLR profitable. The globally renowned consulting companies suggested the formation of cross-functional teams to manage liquidity and contain costs at various levels within the business. The implementation efforts were successfully spearheaded by a young team, just as it was done in India in

"When Ford had not been able to make a profit with JLR, what was Tata, with no experience in the premium car segment going to do?" said some. Many others felt that the Tatas would shut down the plants in Britain, move them to India, and convert the Birmingham/Coventry plants into a real estate project"



‘I feel strongly that in later years we can look back on the JLR acquisition and say to ourselves that this was a very worthwhile strategic acquisition and one which has brought us considerable technology and global presence’

– Ratan Tata

2001. The anticipated savings were an astoundingly high amount.

On the labour front, the company undertook a multi-pronged strategy to manage costs. One was to send several hundred employees on a sabbatical. Secondly, the permanent workforce was rationalised by 32 per cent and the labour force was trimmed by 2000. In February 2009, the company also managed to negotiate with thousands of workers on a pay freeze (until 2010) and a shorter four-day working week to avoid compulsory job losses during the financial crisis. Salaried staff also agreed to a three-hour extension of the working week to 40 hours and a pay freeze. The deal with its workforce saved about L68 million for the company. Several other cost-saving initiatives were implemented with success.

...By 2017, Jaguar tripled its sales compared to 2009 and the JLR revenue topped by \$34 billion (₹2.31 lakh crore) within the consolidated Tata Motors revenue of ₹2.74 lakh crore. With 2600 dealerships in 170 countries, JLR employed 35,000 people globally of the 79,500 employees within the Tata Motors group. Considered to be the largest employer in the UK's automobile sector, JLR often ranked in the top five 'best employers to work for' list in the UK. Tata Motors' success in acquiring and eventually turning around JLR surprised analysts and investors alike. In 2008, many critics had commented that Tata Motors

was making an expensive mistake by acquiring JLR, which had little synergy with Tata Motors' mass-market image. Past examples of similar acquisitions that weren't successfully integrated prompted many of these doomsday scenarios for Tata Motors. The Daimler-Chrysler merger that had happened a decade earlier in May 1998, where a high-end brand was combined with a set of more mass-market brands, was a case in point.

One of the reasons for failure was that US-based Chrysler's employees always perceived it as a takeover with major decisions taken by Daimler headquartered in Germany. Consequently, many employees left Chrysler in the initial days post-acquisition. Ultimately, Chrysler was sold to a PE fund in 2007.

The Tatas handled the acquisition very differently by granting autonomy to managers in England. Speth pointed out that synergies between JLR and Tata Motors were limited to processes. 'The business and science of luxury cars is completely different from that of mass vehicles,' he said. Though JLR was a wholly owned subsidiary of Tata Motors, it consistently kept the brand identity of JLR distinct. It did not try to impose its culture on JLR in any significant manner. The Tatas' hands-off policy of achieving integration was executed with great finesse and success. In later years, Ratan Tata remarked that Speth had done a terrific

job of leading the team of people. In the long term, JLR helped Tata Motors improve its financial results when the company's commercial vehicles business was yet again going through a cyclical downturn and some of its passenger cars were underperforming in Indian markets.

...The JLR acquisition portrayed the Tata Group as an entity willing to take tremendous risks. These were not blind risks, but calculated ones. The acquisition was for the long-term, independent of the financial crisis. It was executed with clear vision and conviction, immense courage and systematic implementation. It wasn't a reckless approach to extract maximum value from a venture. Attributing the long-term success of the JLR acquisition to the Tata culture, Gandhi said: 'We have not had a single legal battle with Ford under any of the original agreements. It is the Tata code of ethics – keeping our word under all circumstances – which has been the key to our success in all transactions that I have done for Tata Sons.'

In a letter to shareholders in 2009, Ratan Tata had written, 'I feel strongly that in later years we can look back on the JLR acquisition and say to ourselves that this was a very worthwhile strategic acquisition and one which has brought us considerable technology and global presence.' A decade later, his words proved to be prophetic. ♦

feedback@businessindia.com